Carter Hawley Hale Stores, Inc.
and Consolidated Subsidiaries

Balance Sheet

	February 1, 1975	February 2, 1974
Current assets		
Cash	$ 14,487,000	$ 10,134,000
Certificates of deposit		35,000,000
Accounts receivable, net	79,286,000	97,886,000
Reimbursable property costs under sale and lease-back agreements	8,534,000	8,154,000
Merchandise inventories	210,237,000	202,647,000
Prepaid expenses	10,940,000	9,975,000
	323,484,000	363,796,000
Property and equipment	222,575,000	216,092,000
Investment in House of Fraser Limited	69,293,000	
Investment in Carter Hawley Hale Credit Corp.	31,697,000	22,176,000
Other investments	24,689,000	23,165,000
Total assets	$671,738,000	$625,229,000
Current liabilities		
Current installments on long term debt	$ 4,078,000	$ 8,094,000
Accounts payable and accrued expenses	84,982,000	96,348,000
Dividends payable	4,321,000	4,321,000
Current income taxes	13,875,000	16,125,000
Deferred income taxes	37,872,000	33,761,000
	145,128,000	158,649,000
Long term senior debt	142,502,000	101,528,000
Convertible subordinated debentures	35,000,000	35,000,000
Deferred income taxes, pensions, etc.	22,718,000	18,848,000
Equity of shareholders		
Preferred stock, $5 par value (aggregate liquidation preference $83,901,000)	9,878,000	9,882,000
Common stock, $5 par value	83,343,000	83,326,000
Other paid-in capital	105,059,000	105,036,000
Accumulated earnings	128,110,000	112,960,000
	326,390,000	311,204,000
Total liabilities and equity of shareholders	$671,738,000	$625,229,000

See accompanying Notes to Financial Statements

Carter Hawley Hale Stores, Inc.
and Consolidated Subsidiaries

Statement of Earnings

	Fiscal Year Ended *February 1, 1975*	*February 2, 1974*
Net sales	$1,121,794,000	$1,031,339,000
Equity in net earnings of House of Fraser Limited	1,731,000	
	1,123,525,000	1,031,339,000
Costs and expenses		
Cost of goods sold	646,975,000	589,575,000
Selling, operating and administrative expenses	316,008,000	280,423,000
Taxes other than income taxes	30,069,000	28,427,000
Rentals of real property	29,789,000	25,547,000
Depreciation and amortization	19,061,000	15,458,000
Net interest expense (less capitalized interest of $3,017,000 and $2,162,000)	20,987,000	11,794,000
	1,062,889,000	951,224,000
Earnings before income taxes	60,636,000	80,115,000
Income taxes	28,200,000	40,300,000
Net earnings	$ 32,436,000*	$ 39,815,000
Per share of common stock	$1.71*	$2.15
Per share of common stock assuming full dilution	$1.60*	$1.95

**Change to LIFO valuation of inventories reduced net earnings by $3,354,000 or $.20 per share ($.16 assuming full dilution).*

See accompanying Notes to Financial Statements

Carter Hawley Hale Stores, Inc.

The Broadway
Los Angeles, California
Thirty-eight department stores
in Southern California, Arizona,
Nevada and Utah.

The Emporium
San Francisco, California
Eleven department stores in
Northern California.

Capwell's
Oakland, California
Five department stores in
Northern California.

Weinstock's
Sacramento, California
Nine department stores in California
and Nevada.

Sunset House
Los Angeles, California
Nationally distributed catalog and
thirty-one gift shops.

Neiman-Marcus
Dallas, Texas
Seven specialty stores in Texas, Florida,
Georgia and Missouri.

Bergdorf Goodman
New York, New York
Specialty stores on Fifth Avenue in
New York City and in White Plains, New York.

Holt, Renfrew
Montreal, Canada
Nineteen specialty stores
throughout Canada.

Walden Book Company
Stamford, Connecticut
Three hundred sixty-five book
shops in forty states.

Carter Hawley Hale Stores, Inc.

Financial Highlights

	February 1, 1975	February 2, 1974
Sales		
First Quarter	$ 239,633,000	$ 216,006,000
Second Quarter	247,782,000	222,006,000
Third Quarter	270,227,000	247,191,000
Fourth Quarter	364,152,000	346,136,000
	1,121,794,000	1,031,339,000
Net Earnings	32,436,000*	39,815,000
Per Share of Common Stock	1.71*	2.15
Per Share of Common Stock assuming full dilution	1.60*	1.95
Working Funds	216,228,000	238,908,000
Property and Equipment	222,575,000	216,092,000
Total Assets	671,738,000	625,229,000
Long Term Senior Debt	142,502,000	101,528,000
Convertible Subordinated Debentures	35,000,000	35,000,000
Equity of Shareholders	326,390,000	311,204,000

**Change to LIFO valuation of inventories reduced net earnings by $3,354,000 or 20 cents per share (16 cents fully diluted).*

Carter Hawley Hale Stores, Inc., experienced a difficult year in 1974, as did other retailers. Sales rose 8.8 percent to a record $1.1 billion. Net earnings, however, declined to $32.4 million from $39.8 million as a result of a $4 million reduction in operating profits and a $3.4 million adjustment in changing to the last-in, first-out (LIFO) method of valuing our department store inventories. Primary earnings per share declined to $1.71 from $2.15 the previous year. Twenty-four cents of this reduction was attributable to current operations and twenty cents to the LIFO adjustment. Fully diluted earnings were $1.60 compared to $1.95 per share in 1973.

These disappointing results stemmed largely from reduced customer demand beginning last September and from generally higher costs of operations, especially interest expense. Moreover, unfavorable earnings comparisons are likely to persist through the first half of 1975. It is anticipated that by fall, and particularly during the important Christmas selling season, comparisons will have become favorable, resulting in improved profits for the full year.

The financial condition of Carter Hawley Hale Stores, Inc., as set forth in the accompanying year-end balance sheet, was satisfactory. Working capital totaled a comfortable $178 million; the current ratio was 2.2 to 1; and there was no short-term bank indebtedness. Senior funded debt equalled 28 percent of total capitalization compared with 23 percent a year earlier, reflecting our decision not to proceed with an offering of common shares due to unsettled market conditions. We expect, however, to

augment the Company's equity to debt ratio as soon as market conditions warrant.

Last year the company acquired for about $68 million in cash a 20.5 percent interest in the outstanding common shares of House of Fraser whose business, including Harrods of London, is believed to represent one-fourth of the traditional department store sales of the United Kingdom. Considering the turbulent economic climate in England and severe margin restrictions imposed on retailers there through much of 1974, Fraser's operating results were remarkably good. Sales increased 22 percent to $706 million and profits of $23 million were close to the previous year's peak level of operating earnings. Carter Hawley Hale's equity in House of Fraser earnings, treated as a one line consolidation beginning with the last quarter of fiscal 1974, was $1.7 million.

Six department and specialty stores and fifty Walden bookshops were opened for business last year. These included Bergdorf Goodman's first suburban store in White Plains, New York and a large Neiman-Marcus store in Frontenac to serve the St. Louis market. The Broadway opened four new stores, two of them near Los Angeles in Puente Hills and Arcadia and two in new markets at Tucson and Salt Lake City. Stores are scheduled for completion this year by the Broadway at Culver City and Laguna Hills in Southern California, Holt, Renfrew in Vancouver, B.C., and Walden at locations throughout the country. Eleven additional department and specialty stores are planned to be opened in the ensuing two years.

A number of new appointments have been made to our senior staff. Richard Hauser, 40, former executive vice president and general merchandise manager of Bloomingdale's, joined Neiman-Marcus as chairman, succeeding Stanley Marcus who became executive vice president of the parent company with new corporate-wide responsibilities. Ira Neimark, 52,

formerly executive vice president of B. Altman, became president of Bergdorf Goodman, with Andrew Goodman being named chairman. Simultaneously Neal Fox, 44, of Neiman-Marcus became executive vice president and general merchandise manager of Bergdorf's. Sidney Goodwill, 45, was promoted to executive vice president and general merchandise manager of Holt, Renfrew. H. Michael Hecht, 35, former executive vice president and general merchandise manager of the G. Fox Division of May Department Stores Company, has been appointed executive vice president and general merchandise manager of The Broadway. Frank Arnone, 35, formerly vice president and general merchandise manager of the Rike's division of Federated Department Stores, became executive vice president and general merchandise manager of Weinstock's. Dean A. Beck, 48, formerly vice president for real estate and construction of Dayton Hudson Corporation and of Carlson Companies, Inc., Minneapolis, has joined our corporate staff as vice president for real estate and construction.

Edward Marcus, who served Neiman-Marcus long and well, has taken early retirement to pursue personal business interests and under our policy has therefore resigned from the Board of Directors. We shall miss his wise counsel.

We welcome two distinguished new Directors. One is Sir Hugh Fraser, the dynamic young chairman of House of Fraser. The other is Robert O. Anderson, chairman of Atlantic Richfield Company and one of this nation's most eminent business leaders.

Carter Hawley Hale is, we believe, well positioned to grow by fifty percent or more in sales and earnings during the balance of this decade assuming reasonable economic stability in the Western World. The dominance of the Company's West Coast department stores should be further enhanced both through increased sales per square foot of existing units and

the addition of new ones. Moreover, consistent with anti-trust laws, acquisition of one or more department store companies located elsewhere in the country is a continuing possibility. Our renowned specialty stores are likewise candidates for improved productivity and widespread expansion. In addition, House of Fraser has the potential for expansion both in the United Kingdom and elsewhere in the world.

Sir Hugh Fraser

Robert O. Anderson

We consider our extraordinarily competent management team, portrayed in the pages that follow, highly qualified to lead this Company successfully through the current recession and to assure it a competitive advantage during the anticipated recovery.

To the company's more than 13,000 shareholders, its nearly 35,000 employees and its world-wide network of suppliers we should like to express our appreciation for their continuing support.

Respectfully submitted,

Edward W. Carter

Edward W. Carter
Chairman

Philip M. Hawley

Philip M. Hawley
President

Prentis C Hale

Prentis C. Hale
Chairman, Executive Committee


VITTLES

Carter Hawley Hale Stores, Inc., in little more than a decade, has grown from a regional department store company with sales of $200 million to one of the nation's foremost retailing organizations with annual sales of $1.1 billion. Today it is the nation's seventh largest department store operation and includes three of North America's most prestigious specialty stores, the country's largest book retailer and one of its leading gift and novelty mail order firms.

The key factor in this progress has been people—the judgment and imagination of management, combined with the skills of nearly 35,000 employees whose efforts are fundamental to the success of the Company. The competitive spirit that has characterized the management of the Company since its inception has imbued each division with the challenge to excel. As a result, each of the four general department store divisions is dominant in its area. The specialty department stores enjoy the finest reputations for excellence in fashion, quality and service.

By its nature, retailing is a people-intensive business, reflective of the personal qualities and competence of management. It is a business of people working together to achieve common goals—individuals relating to the needs and desires of other individuals. Ultimate success largely depends upon their training, efficiency and attitude.

For a number of years Carter Hawley Hale has been restructuring and expanding its top level organization to manage growth, expansion and diversification. Candidates for greater responsibilities have been identified within the Company and systematically trained. In addition, ex-

perienced and talented executives have been secured from the outside to provide for expanded and specialized functions as the Company has grown. Corporate and division managements have been strengthened and structured to provide the most effective leadership for the Company in the current period of economic uncertainty and throughout the next decade.

Corporate

At the corporate level, a small staff provides leadership and technical services to the operating divisions. Company officers are concerned with matters of major policy, long-range planning, corporate finance, real estate and budgeting. Support is furnished divisional management in such specialized areas as the establishment of short and long-range objectives, senior personnel, data processing and public relations. The corporate executives act as catalysts in stimulating the divisions to develop and to achieve their growth and profit goals while delegating to them the full responsibility and authority to determine and to carry out the most effective means of doing so. Under the leadership of Chairman Edward W. Carter and President Philip M. Hawley, a management team has been developed which is expected to accomplish successfully the earnings and expansion objectives which call for the opening of ten new department and specialty stores over the next two years together with internal growth commensurate with economic conditions in the future.

Mr. Carter, who became chief executive of the Company in 1946 when it comprised three stores in the Los Angeles area with sales of approximately $32 million, set the pattern for the dynamic growth of the Broadway division. In 1951 The Broadway merged with Hale Bros. Stores, Inc., of San Francisco, headed by Prentis C. Hale, now chairman of the executive committee. Since that time, the Company has consistently been expanded in

the direction of higher quality stores and new, productive markets. Discounting was rejected in favor of traditional department stores, which benefit from the increased buying power of the expanding middle income group, and fine specialty stores, whose more affluent markets provide high productivity and national expansion opportunities.

Mr. Hawley joined the Company in 1958 at the age of 32, and ten years later was named president of the Broadway division. He became president of Carter Hawley Hale in 1972. Like Mr. Carter, he believes that the development of individuals as skilled managers to guide long term strategy and maintain high quality marketing is essential to the continued growth and success of the Company.

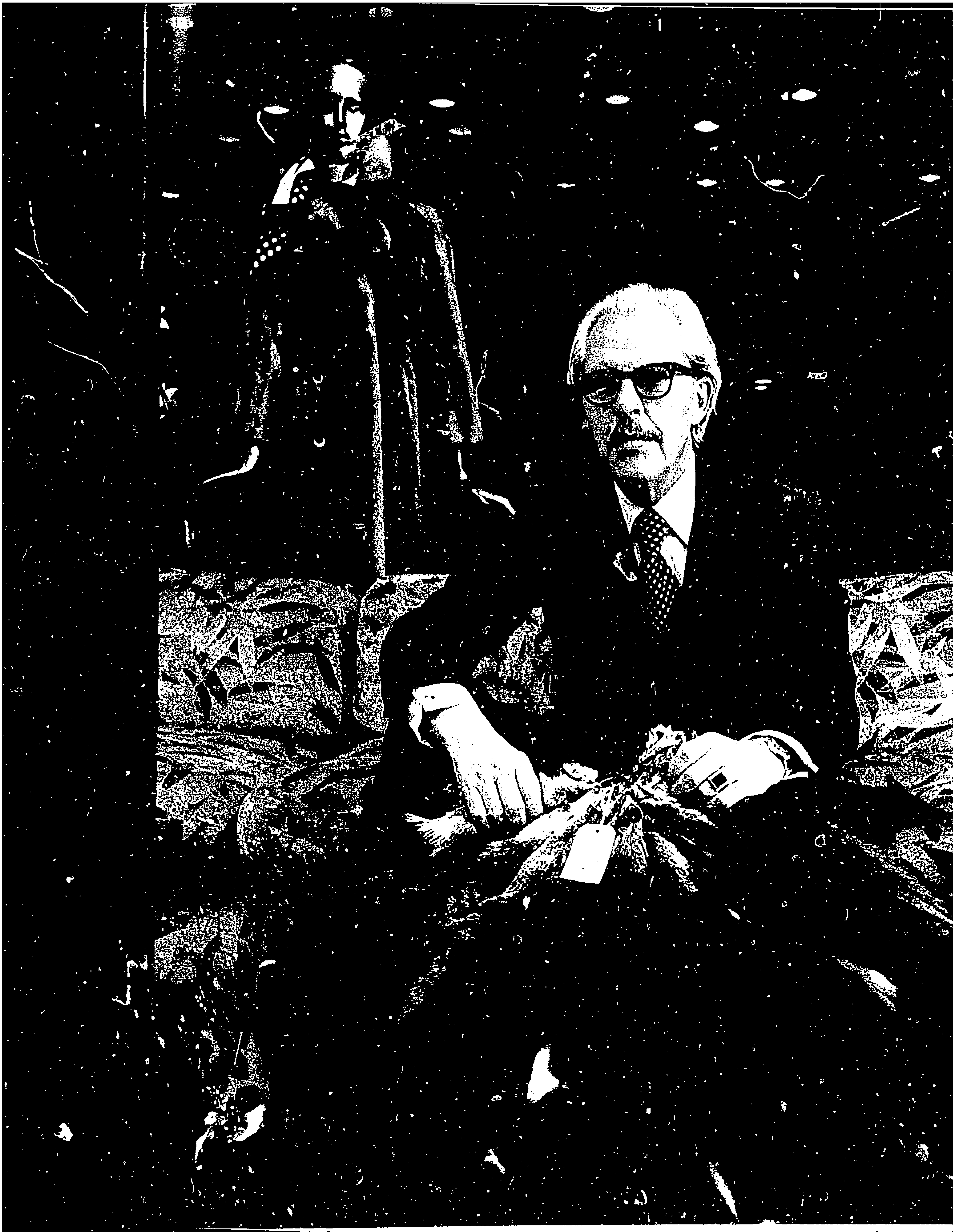
Edward W. Carter   Philip M. Hawley

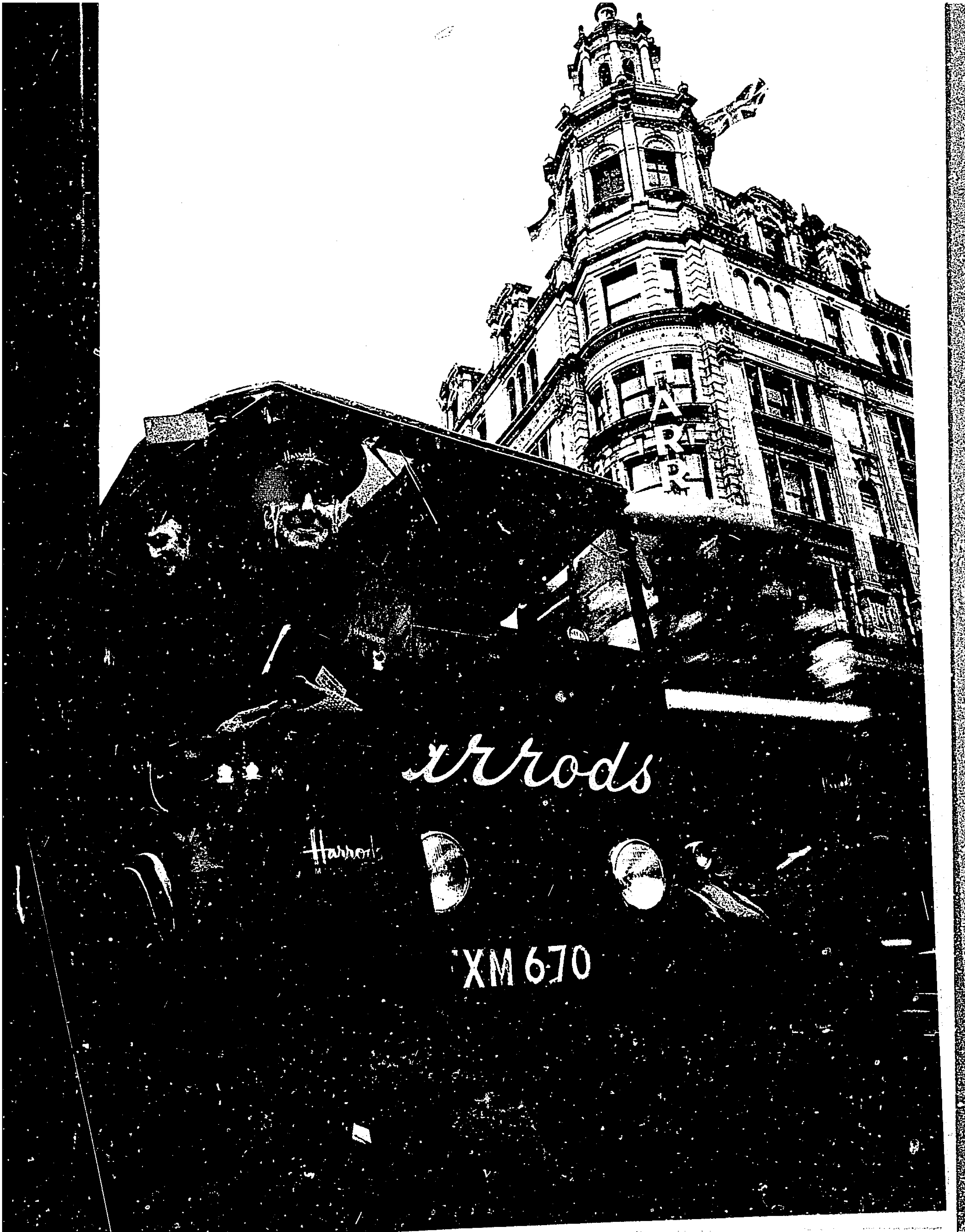
Prentis C. Hale

Five executive vice-presidents share with Mr. Carter and Mr. Hawley the formulation of policy and plans. Each, however, is assigned specific areas of emphasis and responsibility.

Eaton W. Ballard has been with the Company since 1947. His thorough knowledge of its development, policies and management philosophy make him uniquely qualified to handle his responsibilities in the areas of finance, corporate accounting and control, long range planning, and information systems. Howard N. West, vice president and treasurer, who has been with the Company 22 years, reports to Mr. Ballard.


IVENCHY




Harrods
XM 670

Summary of Operations

(Dollar amounts except per share data in thousands)	*1974*	*1973*	*1972**	*1971*	*1970*
For the Year					
Sales	$1,121,794	$1,031,339	$931,049	$787,667	$680,475
Equity in net earnings of House of Fraser	1,731				
Cost of goods sold	646,975	589,575	534,861	454,469	394,919
Selling, operating and administrative expenses	316,008	280,423	254,618	215,593	186,804
Taxes other than income taxes	30,069	28,427	25,460	21,403	18,308
Rentals of real property	29,789	25,547	22,293	16,966	12,944
Depreciation and amortization	19,061	15,458	13,464	11,732	9,888
Interest expense, net	20,987	11,794	9,432	9,814	9,964
Earnings before income taxes	60,636	80,115	70,921	57,690	47,648
Federal and state income taxes	28,200	40,300	35,850	29,015	24,561
Net earnings	32,436**	39,815	35,071	28,675	23,087
Net earnings available for common shareholders	28,484	35,862	31,040	24,582	20,399
Per Common Share					
Net earnings	1.71**	2.15	1.87	1.59	1.36
Assuming full dilution	1.60**	1.95	1.74	1.52	1.33
Dividends	.80	.78	.69	.67	.63
At Year End					
Accounts receivable including accounts sold	265,832	228,623	204,067	187,319	170,677
Merchandise inventories	210,237	202,647	177,254	149,393	123,387
Property and equipment	222,575	216,092	174,535	169,210	149,853
Long term senior debt	142,502	101,528	84,558	95,688	70,919
Convertible subordinated debentures	35,000	35,000	35,000		
Equity of shareholders	326,390	311,204	286,181	265,365	211,907
Working funds	216,228	238,908	254,831	207,959	154,661

**Fifty-three weeks*

***Change to LIFO valuation of inventories reduced net earnings by $3,354 or $.20 per share ($.16 assuming full dilution).*

K. Wade Bennett joined the Company in 1973 after a number of management positions with R.H. Macy & Co. and Federated Department Stores. At the time he came to Carter Hawley Hale he was president of Macy's New York. Because of his many years of experience in general management and personnel, Mr. Bennett is well qualified to assume corporate responsibility for those functions relating to people. Assisting him are Paul Chevalier, vice president of employee relations, and Dennis Worrell, vice president of employee development.


Eaton W. Ballard


K. Wade Bennett


Ardern R. Batchelder


Stanley Marcus


Donn B. Miller

Ardern R. Batchelder is responsible for advising the managements of the Northern California department store divisions and assisting the other divisions in expense control and budgeting techniques. He began his career with The Emporium in San Francisco in 1934 and was chairman of Emporium Capwell before being named to his corporate position.

Stanley Marcus, who began his retailing career with Neiman-Marcus in 1926 and became its president in 1950, concentrates on the Company's specialty store group. The unique and highly imaginative qualities of leadership which he demonstrated in establishing Neiman-Marcus as one of the best known fashion specialty stores in the world are being made available to the other divisions of the Company in the areas of merchandising and sales promotion. He is assisted by Gordon Franklin, who has recently been

appointed Corporate Director of Foreign Purchases.

Donn B. Miller has broad corporate responsibilities in the areas of legal affairs, real estate and construction, government and shareholder relations. Mr. Miller, 45, who was formerly an attorney in private practice, joined the Company in 1974. Assisting him in the performance of these duties are Dean A. Beck, who recently became vice president of real estate and construction, E. John Caldecott, vice president for legal matters relating to real estate, and Donald G. Livingston, corporate secretary with additional responsibilities in respect to governmental affairs.

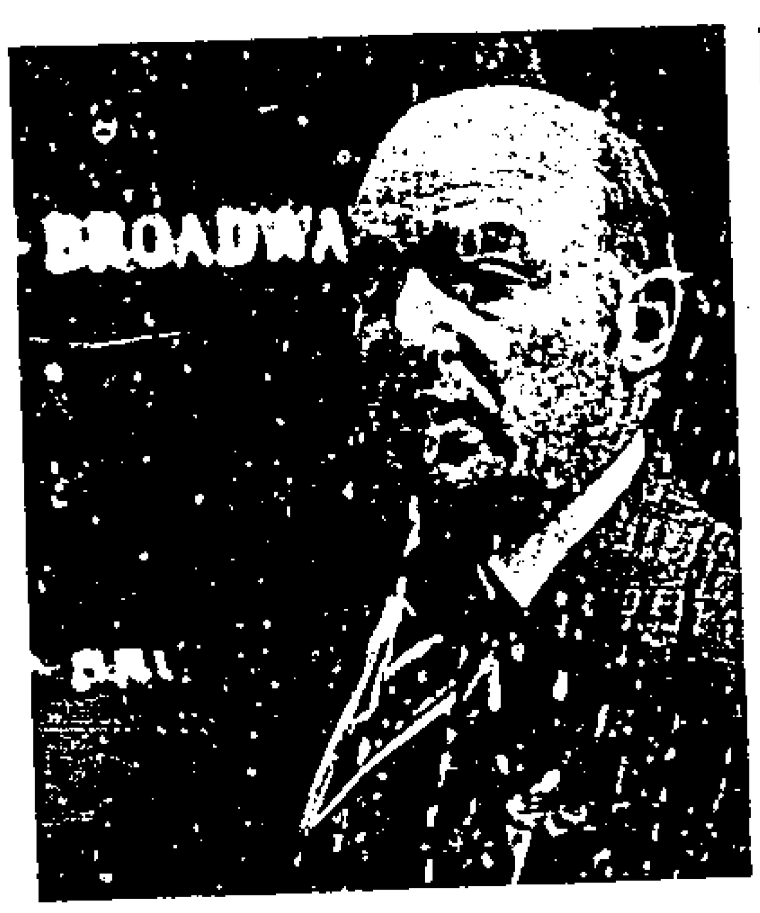
Dennis L. Worrell *Paul A. Chevalier* *Dean A. Beck* *E. John Caldecott* *Howard N. West*

Department Stores

Although the economy suffered from a combination of inflation and slower growth in 1974, each of Carter Hawley Hale's department store divisions reported increases in sales. Programs to increase market share of existing units through facility modernization, plus aggressive and imaginative merchandising efforts, are continuing under the direction of strengthened management at each of the department store divisions.

At The Broadway, Chairman J. Hart Lyon has named H. Michael Hecht executive vice president, merchandising and sales promotion, and M. William Proudfoot executive vice president, stores, operations and finance.

Mr. Lyon has been with the Company for 24 years. He served as executive vice president for merchandising and sales promotion at The Broadway and as president of Weinstock's before being named chairman of The Broadway in 1972. Mr. Hecht formerly was executive vice president, merchandising and sales promotion, for G. Fox & Co., of Hartford, Connecticut, and has held a number of executive positions in retailing since beginning his professional career in 1962. Mr. Proudfoot was vice president, finance, before being named to his new position. He has been with the Company since 1952 and is a former president of Weinstock's.



J. Hart Lyon

H. Michael Hecht

M. William Proudfoot

The Broadway, with 38 units located in four states, comprises the largest number of traditional department stores under one management in the country. Professional techniques developed over many years to manage this widespread group of stores and an effective program to recruit and train skilled people are major factors that have made it possible for The Broadway to achieve growth and profit objectives.

Emporium Capwell maintained its position as the Bay Area's leading department store group in 1974. The division has long been known for its merchandise quality and assortments appealing to a wide market range. Emphasis is being directed to maintaining high standards with particular focus on apparel for style conscious men and women as well as the junior

market. Modernization and enlargement programs in a number of Emporium and Capwell's stores are underway to improve merchandising effectiveness.

Overall direction of the division is the responsibility of Robert G. Wilhelm, 57, who became president of Emporium Capwell in 1970 and was named chairman and chief executive officer in 1974.

Bartley Durant, 47, formerly president of Weinstock's, was appointed president of The Emporium in 1974. Angelo R. Arena, 46, formerly vice president of Weinstock's, was named executive vice president for merchandising and sales promotion.

Jack L. Richardson, 47, is president of Capwell's. He was promoted from general manager of the division in 1974. There has been rapid growth in the areas served by Capwell's and the division has a new store under construction at the Hilltop Shopping Center in Richmond, California.

Robert G. Wilhelm

Bartley S. Durant

Angelo R. Arena

Jack L. Richardson

Weinstock's continues to be the dominant department store in California's rich Central Valley and in Reno, Nevada. During the year, Arthur L. Crowe, Jr., formerly vice president and general merchandise manager of the Broadway division, was named president of Weinstock's. Joining him as executive vice president, merchandising and sales promotion, was Frank Arnone, formerly vice president and general merchandise manager of Rike's of Dayton, Ohio.

Weinstock's is beginning its second century as the leading high quality department store group in the area. Plans call for the opening early in 1977 of a new store in Modesto which will bring the total number of Weinstock's units to ten—six in greater Sacramento and one each in Stockton, Fresno and Modesto, California and Reno, Nevada.

Arthur L. Crowe, Jr. *Frank H. Arnone*

Specialty Stores

Fine specialty stores—oriented to quality merchandise, personal service and excellence in taste—present a unique opportunity for Carter Hawley Hale to become a nationwide company represented in most major markets. The specialty divisions are well recognized and have national stature which enhances their entry into new markets. The ability to achieve distinction through the careful editing of stocks and to obtain relatively higher margins also are important factors in the success of these divisions.

Neiman-Marcus in recent years has expanded from its home state of Texas and today has seven stores—four in Texas and others in Bal Harbour, Florida, Atlanta, Georgia and St. Louis, Missouri. Currently construction is underway on new stores in Washington, D.C., and suburban Chicago.

At Neiman-Marcus, Chairman Richard P. Hauser and President Richard C. Marcus, who share management responsibilities, constitute a

young team capable of continuing the carefully planned growth while maintaining the outstanding quality and level of service which are traditionally synonymous with the Neiman-Marcus name.

Mr. Hauser, 40, was executive vice president, general merchandise manager of Bloomingdale's prior to joining Neiman-Marcus earlier this

Richard P. Hauser

Richard C. Marcus

Thomas E. Alexander

Murray Friedman

year. He has held a number of merchandising and executive posts with that leading New York City department store. As chairman of Neiman-Marcus he has overall responsibility for merchandising and sales promotion.

Mr. Marcus, 36, began his retailing career at Bloomingdale's and has held various posts at Neiman-Marcus over the past several years. He is responsible for stores, operations and financial controls.

Working closely with Mr. Hauser and Mr. Marcus are Thomas Alexander, 43, senior vice president, sales promotion, and Murray Friedman, 45, senior vice president and general merchandise manager. Completing the management team are Max A. Brown, senior vice president, stores, Clarence J. Boehm, senior vice president, finance and Lawrence Elkin, senior vice president, personnel.

The major event for Bergdorf Goodman during the year was the opening of a beautiful new store in White Plains, the first store outside of Manhattan for New York's fashion leader. As the store becomes established

in the community there will be a continuing effort to broaden the range of merchandise within the Bergdorf tradition of high fashion.

To carry out plans for the development of additional new Bergdorf Goodman stores and maintain a continuity of standards essential to the future, senior management has been substantially augmented and restructured. Andrew Goodman, who directed Bergdorf Goodman for 24 years through its period of greatest sales growth, has been named chairman of the board. As chairman, he will continue to lend guidance and support to the management of the division.

Ira Neimark, 52, is the new president and chief executive officer. He comes from B. Altman where he was executive vice president and general merchandise manager. His prior experience includes positions with G. Fox and Bonwit Teller.


Andrew Goodman


Ira Neimark


Leonard J. Hankin


Neal J. Fox

Neal J. Fox, 44, has been named executive vice president and general merchandise manager. Mr. Fox was a vice president and general merchandise manager of Neiman-Marcus. Leonard J. Hankin, for many years executive vice president of Bergdorf Goodman, continues in that capacity.

Holt, Renfrew & Co., Limited is Canada's finest fashion store tracing its history back 137 years. The company has 19 stores located in most of the principal cities of Canada and will be expanding to the West in 1975 with

the opening of a major new store in Vancouver, B.C. During the year, Holt, Renfrew continued to broaden its merchandise selections and to create new departments in a number of key stores. This year a new central distribution center will be opened in Montreal to serve all stores. Expansion of existing stores in Quebec City and at Place Ville Marie in Montreal also is underway.

Lenard M. Shavick, president for the past ten years and a thoroughly experienced fashion merchant, recently named Sidney Goodwill, 45, executive vice president and general merchandise manager. Mr. Goodwill has

Sidney Goodwill *Lenard M. Shavick*

been with the company 18 years in a number of merchandising capacities. Assisted by an experienced group of executives in Montreal, they plan to continue to expand the division's markets and move into selected new merchandise areas.

Walden Book Company, which began as a small book and lending library business during the thirties, enjoyed its most successful year in 1974. Fifty new stores were opened bringing the total number of Walden Book outlets to 365 at year end. Demand for books continues to increase—if anything, the economic downturn has brought more people back to the printed word. Waldenbook's comprehensive inventory, emphasis on popular and profitable selections, and well designed promotion campaigns have increased the sales pace. In the six years since the company became part

of the Carter Hawley Hale family, sales have increased approximately ten times over 1968 levels.

In 1974 Russell L. Hoyt, 38, an executive with many years experience in Walden, became chairman and chief executive and Arthur Coons, 44, formerly a merchandising manager for the Company's Broadway division, was named president. Walden, already the country's largest retailer of books, expects to add to its nationwide network of stores with a goal of more than 500 retail units by the end of the decade.

Russell L. Hoyt

Arthur G. Coons, Jr.

R. Roy Hedberg

Sunset House, one of the nation's leading novelty mail order firms, continued to build its direct mail merchandising efforts under the able guidance of its president, Roy Hedberg. Last year nearly 60 million catalogues were mailed to customers throughout the 50 states, 34 gift shops were operated in California, Arizona, Utah and Texas and horticultural products were first offered by direct mail. In the years ahead the company will be developing new mail order markets and adding more retail stores.

H ouse of Fraser has an important asset not found on its balance sheet—an able, aggressive management which has more than doubled the size of the company over the past eight years and managed to sustain a satisfactory level of profit in the face of difficult economic conditions in the United Kingdom. When Carter Hawley Hale acquired 20.5 percent of the company's outstanding stock in 1974, Sir Hugh Fraser, 38, agreed to continue as Chairman, assuring continuity of leadership. In recent years the company has moved toward centralized buying and distribution, developed a strong fashion orientation and maintained an excellent reputation for quality and service in its stores. Assisting Sir Hugh in the management of the company is Lord Redmayne, Deputy Chairman, and a team of other experienced executives who oversee the seven management groups which direct Fraser's various retail activities.

Perhaps the best known name in the Fraser group is Harrods, long a London landmark. The store is one of the most interesting in the world with a selection of merchandise which makes it a shopping must for most tourists visiting the city.

Currently Fraser operates 95 full line general department stores and 49 smaller stores in more than 91 towns and cities throughout England, Scotland, Eire and Northern Ireland. The company also owns Illums, Denmark's leading department store, with two units in that nation.

Comments by Management on Summary of Operations

Carter Hawley Hale Stores is engaged in the retail business through its nine divisions and wholly owned subsidiaries. The Company operates 63 general department stores, 28 specialty department stores, 365 book stores and departments and is a retail distributor of gifts and novelties by mail order and through 31 shops.

Sales in 1974 continued a consistent growth record, increasing 8.8% over 1973 which year, in turn, recorded an increase of 10.8% over 1972. Reflecting the trend in general economic conditions the rate of increase, which at mid-year was 11.3%, slowed sharply toward the end of the year with the fourth quarter showing an increase of 5.2%. As a result, however, of the investment in House of Fraser Limited in October 1974, additional revenues accrued to the Company in the final quarter from its 20.5% equity in Fraser's earnings.

Cost of goods sold rose 9.7% from 1973 compared to 10.2% the previous year reflecting in part a change in 1974 to the last-in, first-out (LIFO) method of valuing inventories in the general department stores. This change had the effect of increasing cost of goods sold for 1974 by approximately $7,000,000 and reducing net income $3,354,000, or $.20 per common share.

Net interest expense increased 78% in 1974 as a result of a sharp rise in short term rates and higher levels of both short and long term debt. This compares with an increase of 25% in 1973. Long term senior debt in the amount of $45 million was added by the parent company in 1974 and short term borrowings of Carter Hawley Hale Credit Corp. at year end were approximately $47 million higher than the previous year.

The increase of 23.3% in depreciation and amortization for 1974 reflects the substantial additions to fixtures and equipment for new stores opened late in 1973 as well as in 1974. This compares with an increase of 14.8% the prior year.

As a result of the change in the method of valuing inventories, the increased interest and depreciation expense noted above and the costs associated with the opening of new stores, earnings before income taxes declined 24.3% in 1974. Had the change not been made in the method of inventory valuation, earnings before taxes would have shown a decrease of 15.6%. In 1973, when sales rose 10.8%, earnings before tax exceeded 1972 by 13%.

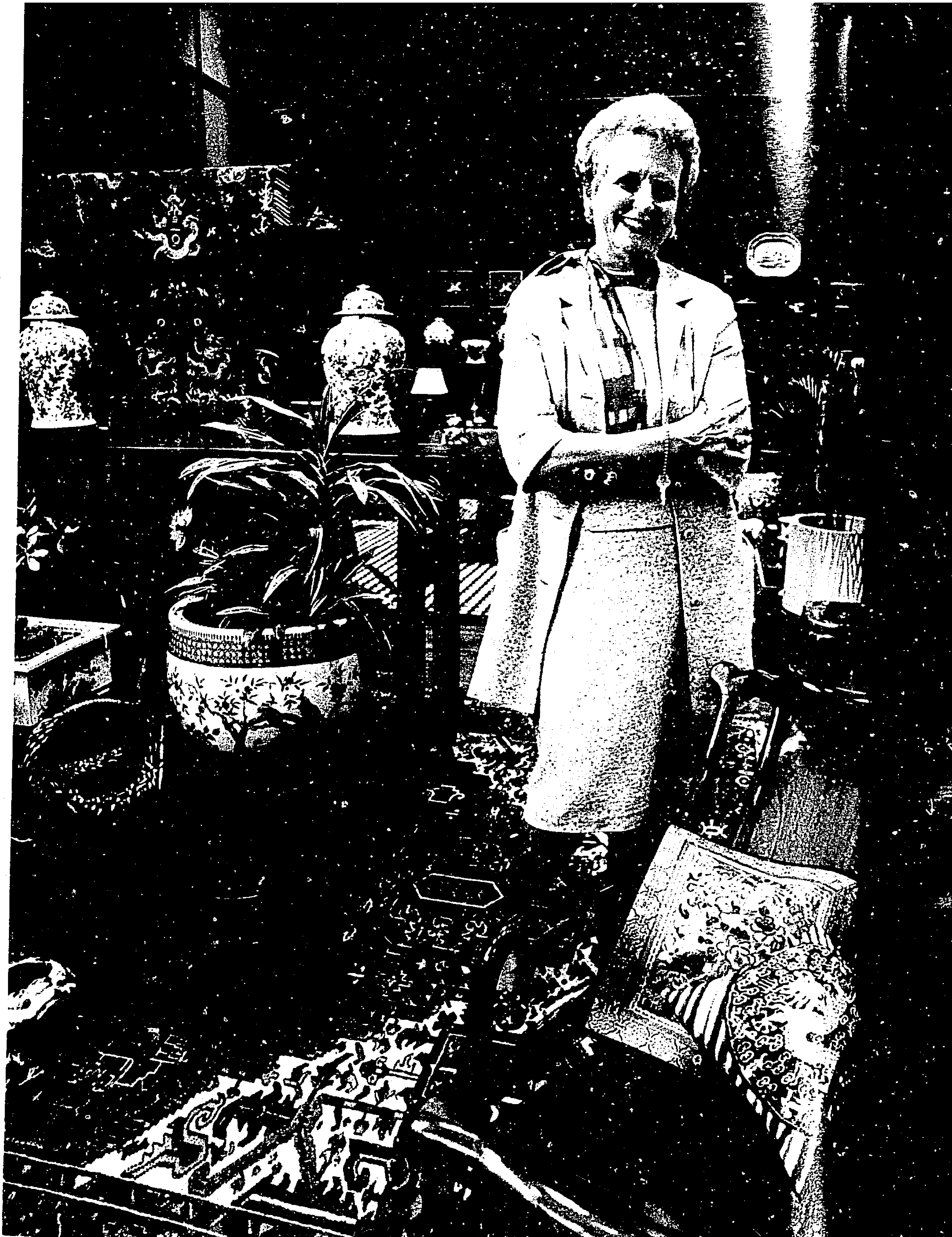
The decline of 30% in Federal and State income taxes for 1974 compares with an increase of 12.4% for 1973 and reflects the changes in operating results, in inventory valuations and in the investment tax credit which in 1974 amounted to $2,400,000 compared with $1,350,000 in 1973.

Summary of Quarterly Earnings, Dividends and Market Prices

	1974					1973				
	First Quarter	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	*Year*	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	*Year*
Net Earnings (thousands):*										
Before change to LIFO	$5,735	$6,082	$6,567	$17,406	$35,790	$5,122	$5,650	$7,389	$21,654	$39,815
Less LIFO adjustment	*716*	*741*	*808*	*1,089*	*3,354*					
As restated	5,019	5,341	5,759	16,317	32,436					
Earnings Per Common Share:*										
Before change to LIFO	.28	.31	.33	.99	1.91	.25	.28	.38	1.24	2.15
Restated for LIFO	.24	.27	.28	.92	1.71					
Restated assuming full dilution	.24	.27	.28	.81	1.60	.25	.28	.37	1.05	1.95
Dividends:										
Common Shares	.20	.20	.20	.20	.80	.175	.20	.20	.20	.775
Preferred Shares	.50	.50	.50	.50	2.00	.50	.50	.50	.50	2.00
Market prices:**										
Common Shares										
High	31	27½	21⅜	20½	31	42¼	39	36	29½	42¼
Low	26½	21	12	12½	12	36¼	27	29½	22	22
Preferred Shares										
High	51¼	48	39	30½	51¼	70¼	62½	63	53½	70¼
Low	45½	37½	22	24	22	54½	48½	56	39	39

**Effective February 3, 1974 the Company changed to the LIFO method of inventory valuation which resulted in a restatement of 1974 quarterly net earnings as shown above. See Notes to Financial Statements, Merchandise Inventories, page 34.*

***Closing price March 31, 1975 of a Common Share was $24 and of a Preferred Share was $40½.*



Carter Hawley Hale Stores, Inc.
and Consolidated Subsidiaries

Statement of Earnings

	Fiscal Year Ended February 1, 1975	February 2, 1974
Net sales	$1,121,794,000	$1,031,339,000
Equity in net earnings of House of Fraser Limited	1,731,000	
	1,123,525,000	1,031,339,000
Costs and expenses		
Cost of goods sold	646,975,000	589,575,000
Selling, operating and administrative expenses	316,008,000	280,423,000
Taxes other than income taxes	30,069,000	28,427,000
Rentals of real property	29,789,000	25,547,000
Depreciation and amortization	19,061,000	15,458,000
Net interest expense (less capitalized interest of $3,017,000 and $2,162,000)	20,987,000	11,794,000
	1,062,889,000	951,224,000
Earnings before income taxes	60,636,000	80,115,000
Income taxes	28,200,000	40,300,000
Net earnings	$ 32,436,000*	$ 39,815,000
Per share of common stock	$1.71*	$2.15
Per share of common stock assuming full dilution	$1.60*	$1.95

**Change to LIFO valuation of inventories reduced net earnings by $3,354,000 or $.20 per share ($.16 assuming full dilution).*

See accompanying Notes to Financial Statements

Carter Hawley Hale Stores, Inc.
and Consolidated Subsidiaries

Balance Sheet

	February 1, 1975	February 2, 1974
Current assets		
Cash	$ 14,487,000	$ 10,134,000
Certificates of deposit		35,000,000
Accounts receivable, net	79,286,000	97,886,000
Reimbursable property costs under sale and lease-back agreements	8,534,000	8,154,000
Merchandise inventories	210,237,000	202,647,000
Prepaid expenses	10,940,000	9,975,000
	323,484,000	363,796,000
Property and equipment	222,575,000	216,092,000
Investment in House of Fraser Limited	69,293,000	
Investment in Carter Hawley Hale Credit Corp.	31,697,000	22,176,000
Other investments	24,689,000	23,165,000
Total assets	$671,738,000	$625,229,000
Current liabilities		
Current installments on long term debt	$ 4,078,000	$ 8,094,000
Accounts payable and accrued expenses	84,982,000	96,348,000
Dividends payable	4,321,000	4,321,000
Current income taxes	13,875,000	16,125,000
Deferred income taxes	37,872,000	33,761,000
	145,128,000	158,649,000
Long term senior debt	142,502,000	101,528,000
Convertible subordinated debentures	35,000,000	35,000,000
Deferred income taxes, pensions, etc.	22,718,000	18,848,000
Equity of shareholders		
Preferred stock, $5 par value (aggregate liquidation preference $88,901,000)	9,878,000	9,882,000
Common stock, $5 par value	83,343,000	83,326,000
Other paid-in capital	105,059,000	105,036,000
Accumulated earnings	128,110,000	112,960,000
	326,390,000	311,204,000
Total liabilities and equity of shareholders	$671,738,000	$625,229,000

See accompanying Notes to Financial Statements

Carter Hawley Hale Stores, Inc.
and Consolidated Subsidiaries

Statement of Shareholders' Equity

(Dollar amounts in thousands)

	Shares Issued		*Par Value*		*Other Paid-in Capital*	*Accumulated Earnings*
	Preferred Stock	*Common Stock*	*Preferred Stock*	*Common Stock*		
Balance February 3, 1973	1,984,540	16,587,333	$9,923	$82,937	$103,308	$ 90,013
Net earnings						39,815
Cash dividends on common stock, $.775 per share						*12,915*
Cash dividends on preferred stock, $2 per share						*3,953*
Common stock issued in land acquisition .		58,184		291	1,666	
Sold under employee stock options . . .		6,000		30	89	
Conversion of preferred stock	*8,103*	13,671	*41*	68	27	
Balance February 2, 1974	1,976,437	16,665.188	9,882	83,326	105,036	112,960
Net earnings						32,436
Cash dividends on common stock, $.80 per share						*13,334*
Cash dividends on preferred stock, $2 per share						*3,952*
Sold under employee stock options . . .		1,875		10	27	
Conversion of preferred stock	*862*	1,452	*4*	7	4	
Balance February 1, 1975	1,975,575	16,668,515	$9,878	$83,343	$105,059	$128,110

See accompanying Notes to Financial Statements

Statement of Changes in Financial Position

	Fiscal Year Ended	
	February 1, 1975	*February 2, 1974*
Source of funds		
Net earnings	$ 32,436,000	$ 39,815,000
Depreciation and amortization	19,061,000	15,458,000
Deferred income taxes	6,932,000	7,222,000
Less equity in undistributed earnings of House of Fraser Limited	*1,566,000*	
Less equity in undistributed earnings of Carter Hawley Hale Credit Corp.	*3,021,000*	*1,756,000*
Working funds provided from operations	53,842,000	60,739,000
Properties sold or to be sold under lease-back agreements	67,709,000	21,101,000
Investment properties sold	7,374,000	
Issuance of long term notes	45,000,000	25,250,000
Other sources	1,621,000	3,459,000
	175,546,000	110,549,000
Use of funds		
Cash dividends	17,286,000	16,868,000
Property additions	96,702,000	78,117,000
Payments on long term notes	4,026,000	8,280,000
Investment in House of Fraser Limited	67,727,000	
Investment in Carter Hawley Hale Credit Corp.	6,500,000	8,500,000
Investment in real estate joint ventures	4,318,000	12,662,000
Other uses	1,167,000	2,045,000
	198,226,000	126,472,000
***Decrease* in working funds**	*$ 22,680,000*	*$ 15,923,000*

Increase or *Decrease* in working funds by components		
Cash	$ 4,353,000	*$ 5,274,000*
Certificates of deposit	*35,000,000*	*1,150,000*
Accounts receivable	*18,600,000*	*29,441,000*
Reimbursable property costs	380,000	4,182,000
Merchandise inventories	7,590,000	25,393,000
Prepaid expenses	965,000	923,000
Current installments on long term debt	4,016,000	1,681,000
Accounts payable and accrued expenses	11,366,000	*15,967,000*
Dividends payable		*426,000*
Current income taxes	2,250,000	4,156,000
***Decrease* in working funds**	*$ 22,680,000*	*$ 15,923,000*

Working funds consist of current assets less current liabilities excluding current deferred income taxes.

See accompanying Notes to Financial Statements

Notes to Financial Statements

Summary of significant accounting policies:

Basis of Reporting

The consolidated financial statements include the accounts of the Company and all subsidiaries other than Carter Hawley Hale Credit Corp. Intercompany items are eliminated and earnings of Carter Hawley Hale Credit Corp. before income taxes have been deducted from interest expense.

Sales

Net sales include sales of leased departments and credit service charges. Profits on installment sales are taken into earnings at the time such sales are made.

Merchandise Inventories

Effective February 3, 1974 the Company changed its method of accounting for merchandise inventories from the lower of cost or market as determined by the retail method applied on the first-in, first-out (FIFO) basis to the last-in, first-out (LIFO) basis for its general department stores (approximately two-thirds of total inventories). The LIFO method is considered preferable for such inventories because it more closely matches current costs with current revenues during inflationary periods. This change had the effect of reducing merchandise inventories by $6,982,000 at February 1, 1975 and decreasing net earnings for the year then ended by $3,354,000 ($.20 per share of common stock). There is no cumulative effect of the accounting change on prior periods, since the February 2, 1974 inventory as previously reported is also the beginning inventory under the LIFO method.

Properties

Renewals and betterments of a permanent nature are charged to the property and equipment accounts; maintenance and repairs are charged to earnings. The cost of assets sold or retired is eliminated from the property and equipment accounts, the accumulated depreciation is eliminated from the reserve accounts, and any gain or loss is taken into earnings. Fully depreciated assets are charged against the related accumulated depreciation accounts although such assets may still be in service. Interest, at current rates, and real estate taxes are applied to costs of real property under construction and land held for future development to properly reflect the costs of properties up to the time they produce revenues. Gains or losses from sales of properties relating to the leasing of store facilities are deferred and amortized to earnings over the initial terms of the related leases.

Depreciation and Amortization

Depreciation and amortization is provided on the straight-line method over the estimated useful lives of the various facilities or over the lives of the related leases if such periods are shorter.

Deferred Charges

Store opening and pre-operating costs are charged to selling, operating and administrative expense during the year of the store opening. The excess of the cost of purchased subsidiaries over the underlying equity at the date of acquisition is amortized on a straight-line basis over a period of 40 years.

Notes to Financial Statements

Income Taxes
The Company provides income taxes currently for all items included in the earnings statement regardless of when such taxes are payable. Current deferred taxes result from income on installment sales which is deferred for tax purposes. Deferred taxes related to noncurrent items result principally from accelerated depreciation. Income taxes are reduced for investment tax credits using the flow-through method.

Pensions
Retirement benefits are provided to employees of the Company and its subsidiaries under a number of pension and profit sharing plans. Most pension costs, including profit sharing contributions, are currently funded. Costs of pension and related profit sharing plans are computed under an accepted actuarial method and include amounts necessary to provide for current service costs, amortization of past service costs over periods of 30 to 40 years and interest on all unfunded amounts.

Earnings per Share
Earnings per share of common stock is computed on the basis of the weighted average number of shares and dilutive stock options outstanding during the year after recognition of preferred dividend requirements. Fully diluted earnings per share of common stock is computed on the assumption that all of the outstanding convertible debentures and preferred stock were converted into common stock at the beginning of the year, eliminating preferred dividend requirements and interest, net of tax, on the convertible debentures.

Foreign Translation
Foreign net current assets and long term liabilities are translated at current exchange rates. All other foreign accounts are translated at rates prevailing at the time of the related transactions. Exchange losses in excess of deferred gains are charged to current earnings.

Accounts receivable:	*Feb. 1, 1975*	*Feb. 2, 1974*
Customer receivables	$247,406,000	$225,924,000
Notes and other receivables	22,010,000	6,144,000
	269,416,000	232,068,000
Accounts sold to Carter Hawley Hale Credit Corp. net of retained equity of $20,727,000 and $14,526,000	186,546,000	130,737,000
Allowance for doubtful accounts	3,584,000	3,445,000
	190,130,000	134,182,000
	$ 79,286,000	$ 97,886,000

Property and equipment, at cost:	*Feb. 1, 1975*	*Feb. 2, 1974*
Land	$ 14,342,000	$ 15,834,000
Buildings and improvements	65,966,000	101,597,000
Lease improvements	51,207,000	44,027,000
Fixtures and equipment	159,292,000	129,564,000
Construction in progress and land held for future development	34,504,000	24,234,000
	325,311,000	315,256,000
Accumulated depreciation and amortization	102,736,000	99,164,000
	$222,575,000	$216,092,000

Notes to Financial Statements

Investment in House of Fraser Limited:

In October 1974, the Company consummated the purchase of 20.5% of the ordinary (voting) shares of House of Fraser Limited, a department store business in the United Kingdom, for cash of $67,727,000. The $29,500,000 excess of the cost of this investment over the underlying equity in the net assets of Fraser at the acquisition date, as stated on the basis of accounting principles generally accepted in the United States, has been allocated, based on independent appraisals, to land, buildings and leaseholds for purposes of equity accounting. No amounts were allocated to other asset and liability accounts as the net effect thereof would not have been material. The amounts allocated to buildings and leaseholds are being depreciated and amortized on a straight line basis over the estimated remaining useful lives of such assets. The net assets of Fraser at January 25, 1975 on a United States accounting basis are summarized as follows:

Current assets	$206,839,000
Property and equipment	179,679,000
Investments	11,813,000
	398,331,000
Less:	
Current liabilities	124,401,000
Long-term debt	55,956,000
Deferred taxes	17,808,000
Preference shares	1,804,000
	199,969,000
Net assets attributable to ordinary shares	$198,362,000
Company's equity in net assets	$ 40,664,000

The following summarizes the consolidated results of Fraser on a United States accounting basis for the year ended January 25, 1975 and the last quarter of the year during the Company's ownership:

	13 Weeks Ended Jan. 25, 1975	*Year Ended Jan. 25, 1975*
Turnover (Sales)	$263,780,000	$763,226,000
Value added tax	21,672,000	57,272,000
Turnover excluding value added tax	$242,108,000	$705,954,000
Earnings before taxes on income	23,051,000	47,722,000
Taxes on income	12,175,000	25,003,000
Net earnings	$ 10,876,000	$ 22,719,000

After equity accounting adjustments for depreciation and amortization, the Company's equity in Fraser's net earnings since the acquisition date was $1,731,000 after providing for federal and state income taxes, net of foreign tax credit.

Other investments:

	Feb. 1, 1975	*Feb. 2, 1974*
Investments in real estate joint ventures	$13,555,000	$12,662,000
Excess of cost of purchased subsidiaries over equity in net assets, less amortization	6,227,000	6,400,000
Other	4,907,000	4,103,000
	$24,689,000	$23,165,000

Notes to Financial Statements

Long term debt:

Senior debt maturing more than one year after the balance sheet date is comprised of:	*Feb. 1, 1975*	*Feb. 2, 1974*
5%-5½% Notes due 1976-84	$ 20,350,000	$ 23,390,000
5¾%-6½% Notes due 1976-93	15,162,000	15,845,000
7½% Notes due 1976-2003	26,990,000	27,293,000
8¼% Sinking Fund Debentures due 1977-1996	35,000,000	35,000,000
Notes due 1977-1982 with interest at ¼% to ½% above prime rates	45,000,000	
	$142,502,000	$101,528,000

Principal maturities of the senior debt payable in each of the next five fiscal years are $4,078,000, $5,246,000, $6,950,000, $9,488,000, and $14,524,000, respectively. The notes payable at February 1, 1975 include $31,430,000 secured by property carried at $30,239,000.

The Convertible Subordinated Debentures are due 1987 and bear interest at 4¾% and are convertible into the Company's common stock at $41.50 per share.

Pensions:

The cost of pension and related profit sharing plans for fiscal years 1974 and 1973 was $5,356,000 and $5,196,000, respectively. The actuarially computed value of unfunded past service costs under all plans was approximately $14,000,000 at the most recent valuation dates, $5,400,000 of which was vested. Management does not believe that the 1974 pension reform law will have a material effect on the Company's pension expense or funding.

Leasing policy:

The Company leases most of its operating properties. Department stores are generally occupied under leases which provide for fixed rentals, require payment of property taxes and insurance and are for terms of 30 years with renewal options for substantial periods at reduced rates. Book and gift shops, principally located in shopping centers, are occupied under leases at fixed rentals with initial terms ranging from 10 to 20 years and providing for additional rent based on sales in excess of stated minimums.

In addition to real property rentals shown in the statement of earnings, short term fixture and equipment rentals were $6,123,000 and $6,330,000 for 1974 and 1973, respectively.

Lease commitments:

As of February 1, 1975, minimum lease commitments under noncancelable leases, primarily for real property, payable in each of the next five years is approximately $36,000,000; in each of the succeeding three five year periods $160,943,000, $138,167,000, $103,135,000; and the aggregate for years beyond 1994, $174,287,000. Included in the foregoing totals are certain leases defined as financing leases which have terms which are believed to assure the lessor full recovery of the initial fair market value of the property plus a reasonable annual return thereon. Rentals on such leases included in total rental expense for fiscal years 1974 and 1973 were $19,587,000 and $17,430,000, respectively. Of the Company's minimum rent obligations at February 1, 1975 set forth above, that part attributable to so called financing leases were, for each of the next five years, approximately $25,000,000; in each of the succeeding three five year periods $109,261,000, $104,698,000, $96,030,000; and the aggregate for years beyond 1994, $153,588,000.

The present values of the aggregate minimum lease commitments under financing leases at February 1, 1975 and February 2, 1974 were $254,166,000 and $183,297,000, respectively. The weighted average interest rate under these leases is approximately 7¼% and ranges from 4% to 10¼%. On the assumption that all financing leases had been capitalized, the related property rights amortized on a straight-line basis over the initial term of the lease and interest expense computed on the present value of the outstanding lease liability, and after giving effect to the related income tax effects, the impact on 1974 net earnings would not have been material.

Contingencies:

The Company is a defendant in certain legal actions, the aggregate claims of which are substantial in relation to the Company's net worth. In the opinion of management, the disposition of those actions will not have a material adverse effect upon the Company's financial condition.

Equity of shareholders:

Authorized preferred stock consists of 5,000,000 shares, $5 par value, of which 2,012,867 shares were designated $2 Convertible Preferred Stock. Each share of the outstanding preferred stock provides for cumulative annual dividends of $2, is convertible at any time into 1.6875 shares of common stock, is subject to redemption on or after April 1, 1976 at $47, decreasing at the rate of $.50 a year to $45, and has a $45 involuntary liquidation preference.

Authorized common stock consists of 40,000,000 shares, $5 par value, of which 4,177,156 shares of the Company's common stock were reserved for issuance upon conversion of outstanding convertible securities and 675,825 shares were reserved under the employee stock option plan at February 1, 1975.

Under the stock option plan, key employees may be granted options to purchase the common stock of the Company at not less than 100% of fair market value on the date of option grant. Options are exercisable after one year but not after five years from date of grant. At February 2, 1974 options for 279,450 shares were outstanding and during 1974 options for 10,000 shares were granted at $26.81 per share. At February 1, 1975, options for 285,700 shares were outstanding, at prices ranging from $19.75 to $35.50, of which options for 165,575 shares were exercisable.

Accumulated earnings of $128,110,000 at February 1, 1975 includes $75,416,000 which is available for cash dividends under the terms of the Company's debt agreements.

Income taxes:

Federal, including Canadian (less than 5% of total income taxes), and state income tax expense includes the income taxes of Carter Hawley Hale Credit Corp. and consists of:

	Fiscal Year Ended Feb. 1, 1975	Feb. 2, 1974
Taxes currently payable:		
Federal, net of investment credits of $2,400,000 and $1,350,000	$17,355,000	$28,077,000
State	3,913,000	5,001,000
	21,268,000	33,078,000
Deferred taxes:		
Federal	6,345,000	6,346,000
State	587,000	876,000
	6,932,000	7,222,000
	$28,200,000	$40,300,000

The differences between the U.S. federal income tax rate of 48% and the effective total tax rates of 46.5% and 50.3% for 1974 and 1973, respectively, are due principally to state income taxes offset by investment credits and in 1974 by including the equity in earnings of House of Fraser Limited in pre-tax earnings. Non-current deferred income taxes at February 1, 1975 and February 2, 1974 were $9,421,000 and $6,600,000, respectively.

Notes to Financial Statements

Short term borrowings and interest:
The Company and Carter Hawley Hale Credit Corp. share \$145,000,000 of unsecured lines of credit with 25 banks at prime rates of interest of the lending banks. These lines, as a matter of policy, may be used to support commercial paper borrowings of the companies. At February 1, 1975, \$41,232,000 of these lines were available for additional borrowings.

The Company has an unused \$50,000,000 revolving credit agreement with four banks which provides for interest at the prime rate and that any amounts outstanding on April 30, 1977 may be converted into a seven year term loan. The Company pays an annual commitment fee of ½% on the unused portion of this line. In addition, Carter Hawley Hale Credit Corp. has available an unused \$50,000,000 revolving credit agreement described below.

On the basis of informal understandings with the banks, the companies maintain cash balances which support lines of credit and business operations. During the fiscal year ended February 1, 1975, such balances averaged approximately \$17,000,000.

The maximum amount of short term borrowings outstanding at any month-end during the fiscal years ended February 1, 1975 and February 2, 1974 by the company were \$92,500,000 and \$32,500,000, respectively, and the average aggregate short term borrowings outstanding approximated \$34,500,000 and \$17,200,000, respectively. The approximate weighted average interest rates during 1974 and 1973 were 11½% and 9¾%, respectively, computed on the basis of daily balances.

Interest expense for fiscal years 1974 and 1973 shown on the statement of earnings has been reduced by interest income of \$4,172,000 and \$3,759,000, and earnings of Carter Hawley Hale Credit Corp. before income taxes of \$6,383,000 and \$3,686,000, respectively. Net earnings for 1974 and 1973 would have been reduced by \$1,308,000 and \$933,000, respectively, had costs of financing construction and land held for future development been charged to earnings.

Carter Hawley Hale Credit Corp.:
Substantially all the revenue of Carter Hawley Hale Credit Corp. (Credit Corp.) is obtained by purchasing certain accounts receivable of the Company at discounts which cover its fixed charges at least one and one-half times. Credit Corp. has an unused \$50,000,000 revolving credit agreement with three banks which provides for interest at ½% over the prime rate and that any amounts outstanding on January 31, 1978 may be converted into a four year term loan. In 1974 and 1973, the Company made capital contributions to Credit Corp. of \$6,500,000 and \$8,500,000, respectively. Net earnings of Credit Corp. were \$3,021,000 in 1974 and \$1,756,000 in 1973. A condensed balance sheet of Credit Corp. is shown below:

	Feb. 1, 1975	*Feb. 2, 1974*
Assets		
Customer accounts purchased from Carter Hawley Hale Stores, Inc. less 10% withheld pending collection and settlement of discount	\$186,546,000	\$130,737,000
Cash and other assets	1,209,000	790,000
	\$187,755,000	\$131,527,000
Liabilities and Investment of Carter Hawley Hale Stores, Inc.		
Notes payable	\$103,768,000	\$ 56,665,000
Accrued liabilities	2,290,000	2,686,000
7.95% Notes due 1982	50,000,000	50,000,000
Investment of Carter Hawley Hale Stores, Inc.	31,697,000	22,176,000
	\$187,755,000	\$131,527,000

The 1974 Annual Report of Carter Hawley Hale Credit Corp. is available upon request.

Report of Independent Accountants

Price Waterhouse & Co.

To the Directors and Shareholders of Carter Hawley Hale Stores, Inc.

We have examined the accompanying balance sheet of Carter Hawley Hale Stores, Inc. and its consolidated subsidiaries as of February 1, 1975 and February 2, 1974 and the related statements of earnings, shareholders' equity and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of House of Fraser Limited, an investee accounted for on the equity method, for the year ended January 25, 1975. These statements were examined by other independent accountants whose report thereon has been furnished to us. The investment in House of Fraser Limited constitutes approximately 10% of the consolidated assets of Carter Hawley Hale Stores, Inc. at February 1, 1975. Our opinion expressed herein, insofar as it relates to the amounts included for the net assets of House of Fraser Limited, is based solely on the report of the other independent accountants.

As explained in the notes to financial statements, Carter Hawley Hale Stores, Inc. adopted the last-in, first-out (LIFO) method of inventory valuation effective February 3, 1974 for certain inventories previously accounted for on the first-in, first-out (FIFO) basis.

In our opinion, based upon our examinations and the report of the other independent accountants, the accompanying balance sheet and the related statements of earnings, shareholders' equity and changes in financial position present fairly the financial position of Carter Hawley Hale Stores, Inc. and its consolidated subsidiaries at February 1, 1975 and February 2, 1974, and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, referred to in the preceding paragraph.

Price Waterhouse & Co.

Los Angeles, California
April 7, 1975

Carter Hawley Hale Stores, Inc.

Directors

Robert O. Anderson, *Chairman of the Board of Atlantic Richfield Company.*
Eaton W. Ballard, *Executive Vice President of Carter Hawley Hale Stores, Inc.*
Norman Barker, Jr., *Chairman of the Board of United California Bank.*
Ardern R. Batchelder, *Executive Vice President of Carter Hawley Hale Stores, Inc.*
K. Wade Bennett, *Executive Vice President of Carter Hawley Hale Stores, Inc.*
Edward W. Carter, *Chairman of the Board of Carter Hawley Hale Stores, Inc.*
Sir Hugh Fraser, *Chairman of the Board of House of Fraser Limited.*
Robert Di Giorgio, *Chairman of the Board of Di Giorgio Corporation.*
Andrew Goodman, *Chairman of the Board of Bergdorf Goodman, Inc.*
Prentis C. Hale, *Chairman of the Executive Committee of Carter Hawley Hale Stores, Inc.*
Stanton G. Hale, *Chairman of the Board of Pacific Mutual Life Insurance Company.*
Philip M. Hawley, *President of Carter Hawley Hale Stores, Inc.*
J. Hart Lyon, *Chairman of the Broadway Division of Carter Hawley Hale Stores, Inc.*
Stanley Marcus, *Executive Vice President of Carter Hawley Hale Stores, Inc.*
Donn B. Miller, *Executive Vice President of Carter Hawley Hale Stores, Inc.*
Rudolph A. Peterson, *Administrator, United Nations Development Programme.*
Walter J. Salmon, *Associate Dean of the Harvard Business School.*
Frank H. Sloss, *Partner in law firm of Heller, Ehrman, White & McAuliffe.*
E. Hornsby Wasson, *Chairman of the Board of Stanford Research Institute.*
Robert G. Wilhelm, *Chairman of the Emporium Capwell Division of Carter Hawley Hale Stores, Inc.*

Honorary Directors

W. P. F. Brawner
R. Gwin Follis
Newton J. Hale
Charles S. Hobbs
Robert A. Hornby
W. Earl Miller
Roy L. Shurtleff
Charles S. Thomas

Officers

Edward W. Carter, *Chairman of the Board*
Philip M. Hawley, *President*
Prentis C. Hale, *Chairman of the Executive Committee*
Eaton W. Ballard, *Executive Vice President*
Ardern R. Batchelder, *Executive Vice President*
K. Wade Bennett, *Executive Vice President*
Stanley Marcus, *Executive Vice President*
Donn B. Miller, *Executive Vice President*
Dean A. Beck, *Vice President*
E. John Caldecott, *Vice President*
Paul E. Chevalier, *Vice President*
Howard N. West, *Vice President and Treasurer*
Dennis L. Worrell, *Vice President*
Donald G. Livingston, *Secretary*

Common Stock
New York Stock Exchange
Pacific Stock Exchange
Stock Exchange, London
Ticker Symbol CHH

Preferred Stock
New York Stock Exchange
Pacific Stock Exchange

Transfer Agents and Registrars
Security Pacific National Bank, Los Angeles
The First National City Bank of New York

Independent Accountants
Price Waterhouse & Co.

Auditors of House of Fraser Limited
Touche Ross & Co.

General Counsel
O'Melveny & Myers

Executive Offices
600 South Spring Street
Los Angeles, California 90014

Annual Meeting
The annual meeting of shareholders will be held at the Hyatt Regency Hotel, Hope and Seventh Streets in Los Angeles, California on Thursday, May 22, 1975

Form 10-K
A copy of the company's 10-K report to the Securities and Exchange Commission is available upon request. Please write to the Corporate Secretary at Carter Hawley Hale Stores, Inc., 600 South Spring Street, Los Angeles, California 90014.